CIGARETTE / TOBACCO STORE TOPLINE

(1)SAAPTO.ppt

RJ Reynolds Tobacco Company

51843 1373

Source: https://www.industrydocuments.ucsf.edu/docs/gnbp0000

CIGARETTE / TOBACCO STORE TOPLINE

The cigarette industry is facing two critical issues that could immediately have a serious impact on the methods by which business is conducted.

- ***Cigarette / Tobacco Store*** emergence, and its role in becoming more than just a niche player in the $40 Billion cigarette category
- ***FDA regulations*** and their impact on the retail community if enacted as they are written today

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Source: https://www.industrydocuments.ucsf.edu/docs/gnbp0000

CIGARETTE / TOBACCO STORE TOPLINE

Topline : Cigarette / Tobacco Stores

Fastest growing retail format in the Cigarette Industry

Trade Class has experienced a 58% increase in total outlets during the past 12 months

12% of all cigarettes sold are sold through cigarette stores, 1996 year-to-date

Key elements to the success of these outlets:

- Pricing strategy relative to nearby retail carton outlets
- Full brand selection
- Proper mix of promotional activity
- Product accessibility / clean environment
- Exterior advertising / pricing communication
- Smoker friendly environment

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Source: https://www.industrydocuments.ucsf.edu/docs/gnbp0000

CIGARETTE / TOBACCO STORE TOPLINE

Today's Situation :

Three Types of Cigarette / Tobacco Store Topline			
Outlet Type	Definition	#	Avg Volume
Reservation Store	On Indian Reservation Land. Exempt from tax laws. Very high volume.	435	2,751
Border / Interstate	On high/low tax borders. High traffic low state tax interstates.	318	1,259
Cigarette / Tobacco Store	High volume outlet. Historically, highly cluttered with emphasis on promotion across all price tiers. Emerging format is more focused on tobacco sales only, in a clean, upscale, full price oriented venue.	3,651	991

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Demographic Topline:

Cigarette Store shopper demographics will vary depending on the location of the store.

Historically, high volume boarder/interstate locations are shopped by a higher percentage of 35+ age group. High level of multi-carton, planned purchases. Transient customer.

Strip mall locations adjacent to supermarkets and mass merchandisers attract more female shoppers.

Stand alone cigarette stores are shopped by a greater cross section of consumers. Category mix will impact customer base.

The newer cigarette / tobacco store format is competing with mainstream C-store and Supermarket retail outlets for the marketplace cigarette volume. Business is built and maintained through local/repeat customers.

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The Cigarette / Tobacco Store Layout :

Strip Center locations are typically in the 800-1,200 square foot range.
Almost exclusively focused on tobacco category with cigarette sales contributing 80-95% of overall sales.
Other tobacco items would include cigars, pipe/smoking tobaccos, smokeless products and tobacco related accessories.
Space requirements depend on the number of additional categories merchandised in the store.
Carton, package and promotional fixturing for the tobacco category is generally provided by a combination of the major tobacco manufacturers.
A variety of upscale advertising pieces are also available through the manufacturers.

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Retail Display Allowances :

Cigarette / Tobacco Store retail merchandising contract requirements vary by company, however they generally target the following components:

- Equitable inventory and space for packs and cartons
- Product availability / Brand selection
- Promotional display capability for packs and cartons
- Signage to communicate brand messages and promotion activity

It's important to note that although RDA payments are important, overall profitability and ultimate success must come from the category's sales performance.

A ***Total Category Management*** approach ensuring exposure and promotional resources across all brands and price tiers is recommended to build business and maximize customer satisfaction.

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CIGARETTE / TOBACCO STORE TOPLINE

Cigarette / Tobacco Store RDA Example:

	Average Weekly Volume		
Company	800	1000	1200
R. J. Reynolds	$455	$541	$606
Philip Morris (Level MPL1)	$440	$550	$550
B&W	$365	$365	$415
Lorillard (Row Contract)	$200	$200	$200
Liggett (Row Contract)	$50	$50	$50
Total	$1,510	$1,706	$1,821
PM Exclusive Comparison	$1,101	$1,155	$1,222

All payments are earned monthly and paid quarterly.

This matrix assumes the following share of market by company:

RJR - 30% B&W - 19% LIG - 2%
PM - 44% LOR - 5%

Key Issue: In PM Exclusive situations, RJR has no payment program and removes all promotional resources. In many markets B&W has also pulled all promotion spending. This obviously significantly impacts sales, profits and customer satisfaction.

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CIGARETTE / TOBACCO STORE TOPLINE

C/T Store Profitability Snapshot

(from cigarette sales only) :

	Average Weekly Volume		
	800 CPW	1000 CPW	1200 CPW
Total Dollar Sales	$680,270	$850,337	$1,020,405
Pack / Carton Ratio	20/80	20/80	20/80
Gross Margin - Carton	8%	8%	8%
Gross Margin - Pack	18%	18%	18%
Total Weighted G.M.%	10.1%	10.1%	10.1%
Gross Profit	$68,771	$85,963	$103,156
Industry Display Allow.	$18.120	$20,452	$21,852
Total Gross Profit	$86,891	$106,415	$125,008
Average Inventory Cost	$23,519	$29,399	$35,279
Average Turns Per Year	26	26	26
ROII $	$2.92	$2.92	$2.92
Pre-Tax Expenses (Est.)	$60-75K	$60-75K	$60-75K

Cost Input: Full Price $14.89 (54 SOM) Savings $12.19 (39 SOM) Private Label $9.50 (7 SOM)
Fair Trade States may require higher margins then what is used in this non fair trade state example

* Pre Tax Expenses will vary depending on salaries , lease costs, level of advertising etc.

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Cigarette / Tobacco Store Observations:

- ***Pre Site-Selection Homework*** is key to determine:
  - Marketplace volume opportunities
  - Marketplace pricing strategies
- Adult only format resolves youth access issues.
- Implementation of a total industry approach will maximize sales. Don't lockout business building promotion opportunities!
- Fixturing / Advertising - Allow industry manufacturers to place their fixturing and signage as needed. Avoid unnecessary costs.
- Other Categories
  - Cigars and other tobacco related items compliment store sales and consumer appeal
  - Lottery fits well where available
  - Limit non-tobacco categories - risk losing identity

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Source: https://www.industrydocuments.ucsf.edu/docs/gnbp0000